

AR51

*Annual Report 1981*

# **Camflo Mines Limited**



## Board of Directors

Stanley J. Chad, Calgary, Alberta  
*Petroleum Engineer, President, Signalta Resources Limited*

Andrew J. Fasken, Toronto, Ontario  
*Executive, Executive Vice-President, Camflo Mines Limited*

\*Robert E. Fasken, Oakville, Ontario  
*Mining Executive, President, United Siscoe Mines Inc.*

†Maxwell Goldhar, Toronto, Ontario  
*President, Revenue Properties Company Limited*

Willard J. L'Heureux, Toronto, Ontario  
*Partner, Tory, Tory, Deslauriers & Binnington, Barristers and Solicitors*

Brian K. Meikle, Mississauga, Ontario  
*Geologist, Vice-President of Operations, Camflo Mines Limited*

†\*Robert M. Smith, Oakville, Ontario  
*Mining Engineer, President, Camflo Mines Limited*

†Bruce Verchère, Montreal, Quebec  
*Senior Partner, Verchère, Noël & Eddy, Attorneys*

\*Member of the Executive Committee

†Member of the Audit Committee

William G. Brissenden,  
(Resigned September 8, 1981)

## Officers (as at May 4, 1982)

Robert E. Fasken — *Chairman*

Robert M. Smith — *President*

Andrew J. Fasken — *Executive Vice-President*

Ronald R. Lanthier — *Senior Vice-President*

Brian K. Meikle — *Vice-President of Operations*

Meredyth E. Holt — *Vice-President Exploration*

C. Bruce Burton — *Vice-President Finance*

Kenneth E. Elrick — *Vice-President Administration*

William R. Robertson — *Vice-President & Secretary*

Robert D. Sherman — *Treasurer*

Jack A. Amormino — *Comptroller*

## Staff

Alan Hill — *Director of Engineering*

Peter Maltby — *Chief Metallurgist*

## Mine Staff

Michel Sirois — *Area Mine Manager*

Alex Makila — *Assistant Mine Manager*

Louis Dionne — *Chief Engineer*

Don Lalonde — *Area Electrical Superintendent*

Roger Jolicoeur — *Mill Superintendent*

Conrad Dambroise — *Mine Superintendent*

George Bellavance — *Pandora Mine Superintendent*

Jeannot Boutin — *Senior Geologist*

Patrice Lessard — *Mine Accountant*

## Subsidiary and Associated Companies

C.M.L. Inc.

Neomar Resources Limited

United Siscoe Mines Inc.

Wilanour Resources Limited

La Luz Mines Limited

## Consultant

S. Cameron Brown, Havelock, Ontario

## Executive and Head Office

Suite 3001, South Tower, P.O. Box 45  
Royal Bank Plaza  
Toronto, Ontario M5J 2J1

## Mine Office

P.O. Box 640, Malartic, Quebec J0Y 1Z0

## Transfer Agent and Registrar

Canada Trust Company  
Toronto and Montreal

## Auditors

Thorne Riddell  
Toronto, Ontario

## Solicitors

Holden, Murdoch & Finlay  
Toronto, Ontario

## Bankers

The Royal Bank of Canada  
Toronto, Ontario

## Share Listing

The Toronto Stock Exchange  
The Montreal Stock Exchange  
Symbol CMF

## Annual and General Meeting of Shareholders

June 22, 1982, 2:30 p.m.  
French Room  
Park Plaza Hotel  
Toronto, Ontario

# CAMFLO MINES LIMITED

## FINANCIAL HIGHLIGHTS

(\$000)

	For the years		
	1981	1980	1979
Continuing operations			
Revenue			
Gold	\$ 24,578	\$ 37,253	\$ 24,698
Petroleum and natural gas	7,987	5,087	3,685
	<u>\$ 32,565</u>	<u>\$ 42,340</u>	<u>\$ 28,383</u>
Operating profits			
Gold	\$ 12,841	\$ 24,208	\$ 14,340
Petroleum and natural gas	4,090	3,176	2,415
	16,931	27,384	16,755
Administrative and other net expenses	(3,912)	(7,321)	(2,110)
	13,019	20,063	14,645
Interest	(13,135)	(4,204)	(2,140)
Exploration write-offs	(10,209)		
INCOME (LOSS) FROM CONTINUING OPERATIONS	(10,325)	15,859	12,505
LOSS FROM DISCONTINUED OPERATIONS	(13,056)	(4,629)	(3,013)
EXTRAORDINARY LOSS	(20,509)		
NET INCOME (LOSS)	<u>\$ (43,890)</u>	<u>\$ 11,230</u>	<u>\$ 9,492</u>
NET INCOME (LOSS) PER SHARE	<u>\$(12.06)</u>	<u>\$3.10</u>	<u>\$2.82</u>
TOTAL ASSETS	<u>\$108,168</u>	<u>\$104,804</u>	<u>\$ 55,430</u>
LONG TERM LIABILITIES	<u>\$ 83,440</u>	<u>\$ 39,450</u>	<u>\$ 15,239</u>
SHAREHOLDERS' EQUITY (DEFICIT)	<u>\$ (6,074)</u>	<u>\$ 40,260</u>	<u>\$ 25,546</u>

## 1982 FIRST QUARTER

(unaudited)

	1982	1981
Revenue		
Gold	\$ 7,754	\$ 6,184
Petroleum and natural gas	2,595	2,474
	<u>10,349</u>	<u>8,658</u>
Operating and administrative expenses	4,802	3,993
Interest	3,572	2,223
Depreciation, depletion and amortization	689	322
	<u>9,063</u>	<u>6,538</u>
	1,286	2,120
Other net costs, including income taxes	(337)	(200)
Loss from discontinued operations		(2,324)
Net income (loss)	<u>\$ 949</u>	<u>\$ (404)</u>
Income (loss) per share	<u>\$ .26</u>	<u>\$(.11)</u>
Mine operating cost per ounce of gold	<u>\$ 119.52</u>	<u>\$ 207.68</u>

## Directors' Report to Shareholders

1981 has been an extremely difficult year for your Corporation. The effects of steadily falling gold prices, significant operating losses from the coal business and continued high interest rates on increased debt have been compounded by the general recessionary credit squeeze which occurred late in the year and into the first quarter of 1982.

*This 1981 Annual Report also includes the unaudited consolidated statements of operations and changes in financial position for the first quarterly period in 1982 in which the Corporation rebounded from its 1981 loss to show a net profit of 26¢ per share. The full first quarter report is reproduced in Appendix 1.*



Pouring gold at the Camflo Mine

Gold production decreased 11% in 1981 to 44,788 ounces generating a revenue of \$24.6 million which was equivalent to an average price of Cdn. \$549 per ounce. This compares with a production of 50,478 ounces in 1980 at a record revenue of \$37.3 million, equivalent to an average price of Cdn. \$738 per ounce. The decline in production resulted from the required mining sequences necessary to allow for the proper exploration and development of the upper level of the Malartic Hygrade ore zone. This work has now been completed.

Revenue from petroleum and natural gas interests in 1981 increased 57% over 1980 to \$8 million. This segment of the Corporation's business continues to be an increasingly important contributor to cash flow and profits.

During 1981, Camflo absorbed a loss of \$13.1 million from the coal operations compared with a loss of \$4.6 million the previous year reflecting the acquisition of the interests of the other coal participant in late 1980, and the adverse impact of the 72 day industry wide strike by mine workers during the year.

The Corporation's 1981 results were also adversely affected by significantly higher interest costs for the year, which amounted to \$13.1 million compared with \$4.2 million in 1980. This was the result of persistently high interest rates on the Corporation's increased debt.

Current economic events have necessitated decisions about the future direction of your Corporation as they affect both short and longer term planning and performance.

## Objectives

The primary and immediate objective is to rebuild the Corporation's equity base in order to reduce the inherent risks associated with a highly debt leveraged financial structure. Once this has been accomplished, the Corporation can then resume its overall objective of achieving orderly and profitable growth compatible with the strengths and skills of the Corporation.

## Strategy

In light of this near term objective of rebuilding the equity base, the following three phase strategy has been adopted by the Corporation:

1. Defer all exploration and development activities unless immediate economic returns can be demonstrated,

2. Concentrate on gold production from the profitable Val d'Or property supplemented by cash flows from the Corporation's significant oil and gas reserves, and
3. Evaluate the merits and, where appropriate, proceed with the disposition of certain business segments which are not expected to contribute in the near term to the future growth of the Corporation's equity base and use the proceeds from their dispositions to reduce bank indebtedness.

As a result of the adoption of this strategy, the Corporation has made significant provisions for losses on investments in and advances to certain subsidiary companies.

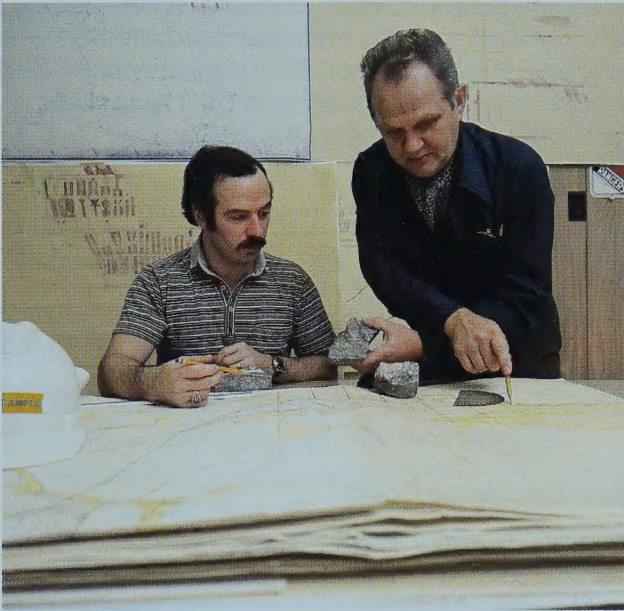
## Financial Results

The Corporation earned an operating profit for the year from its continuing operations of \$13 million, excluding bank interest and one-time write-offs compared with an operating profit of \$20.1 million in 1980. The Corporation provided an aggregate of \$30.7 million in anticipation of losses on its participation in certain exploration projects and its investment in and advances to the coal enterprises. In addition, \$13.1 million of operating losses on these discontinued operations were absorbed. Net loss for the year aggregated \$43.9 million or \$12.06 per share.

As at December 31, 1981, as a result of the provisions and write-offs taken, the Corporation had a deficiency in shareholders' equity of \$6 million. Recent independent evaluations of the Corporation's producing gold interests and its oil and gas holdings, discounting pre income and mining tax cash flows at 15%, based on gold at U.S. \$360 per ounce and oil and gas at prices forecast in Canada's National Energy Program, placed a present value of \$187 million on these assets, which are recorded in the accounts at \$45 million.

## Outlook

Gold production from Camflo's mine plus its 40% share of production from the Malartic Hygrade mine is expected to be significantly higher for 1982, due primarily to the mining of higher grade ore. Revenue from gold production will be tempered to some extent by lower gold prices, however, Camflo has sold forward 31,850 ounces at an average price of U.S. \$350 per ounce, equating to Cdn. \$433 per ounce at current exchange rates.



Debt servicing will continue to affect earnings adversely until the Corporation's bank loan can be significantly reduced through the selective disposition of certain of the Corporation's assets. The Corporation intends that this be accomplished during the year. 1983 should see the Corporation in a stronger financial position benefiting from increased cash flow from its oil and gas interests and capitalizing on its ability to produce gold at an extremely low cost per ounce.

On behalf of the Board.

R. E. Fasken  
Chairman

R. M. Smith  
President

May 14, 1982

# Review of Operations

## GOLD INTERESTS

### Producing Properties

#### CAMFLO GOLD MINE

The Camflo gold mine continues to be the Corporation's most important asset. The ore body extends onto the Malartic Hygrade Gold Mines (Canada) Ltd. property and Camflo's 40% share of operating profits from mining Malartic ore is becoming of major significance. Exploration and development of the Malartic property delayed mining large blocks of Camflo ore in 1981 and this resulted in the mining of below ore reserve grades. With the Malartic stopes coming into regular production, normal mining conditions have now been achieved on both sides of the boundary. The grade of ore anticipated to be mined in 1982 will be above ore reserve grades.

### Production

The following statistics relate only to ore mined from the Camflo claims, unless otherwise stated.

In 1981 the mill treated 413,131 tons of Camflo ore, an average of 1,132 tons per day. The recovered grade averaged 0.097 ounces of gold per ton resulting in the production of 40,236

ounces of gold worth \$21.8 million. When Camflo's 40% share of Malartic Hygrade production is included, the production for the year was 44,788 ounces. The mill recovery was 94.1%. Including the Malartic Hygrade ore, the mill treated 463,000 tons.

	1981	1980	1979
Tons of ore milled . . .	413,131	461,250	471,701
Average recovered grade, oz./ton . . .	0.097	0.109	0.150
Ounces produced . . .	40,236	50,478	70,639
Value of production (000) . . . . .	\$21,800	\$37,253	\$24,698

### Mine Operating Costs

Mine operating costs per ton increased 4.5% to average \$18.21 or, including Camflo's share of the Malartic Hygrade ore, costs averaged \$19.78 per ton. Productivity of the combined operation decreased from 11.9 tons per man shift to 10.4. The reason for the decline in average productivity was the intensive development programme required to prepare the Malartic stopes for production. The operating cost per ounce was \$186.94 for Camflo alone or \$191.26 when Camflo's share of Malartic's production is included.

### Ore Reserves

Total proven and indicated ore reserves on the Camflo property at December 31, 1981 were 2,321,076 tons of 0.130 ounces of gold per ton. This is a decrease of 492,644 tons reflecting the mining of 413,131 tons during the year and the decision to exclude some ore in newly defined permanent pillars. Exploration for new ore on the Camflo property was temporarily postponed as all efforts were concentrated on exploring and developing the Malartic Hygrade property. The Camflo property still has excellent exploration potential to the east and at depth.

Grades reported are for estimated recoverable gold, and details of the year end reserves are as follows:

	1981	1980	1979
Broken Ore — tons . . . . .	154,136	261,740	317,440
Total Broken and Drilled Off — tons . . . . .	491,146	565,400	622,528
Broken and Proven — tons . . . . .	1,820,676	2,219,970	1,591,410
— ozs./ton . . . . .	0.133	0.133	0.150
Total Proven and Indicated — tons . . . . .	2,321,076	2,813,720	2,297,470
— ozs./ton . . . . .	0.130	0.129	0.144

The above tonnages include a 10% allowance for dilution. If 325,000 tons of ore is mined in 1982 and 270,000 tons every year thereafter, as presently proposed, the total proven and indicated tonnage represents an 8.5 year ore reserve.

	1981	1980 (Cost/ Ton)	1979
Development .....	\$ 0.40	\$ 0.86	\$ 0.55
Mining .....	9.92	9.16	7.64
Milling .....	4.52	4.33	3.47
General .....	3.23	2.91	2.62
Marketing .....	0.14	0.16	0.19
TOTAL: .....	<u>\$18.21</u>	<u>\$17.42</u>	<u>\$14.47</u>

## Mine Development

Exploration and development in 1981 was accelerated and was almost entirely concentrated on the Malartic Hygrade property. Diamond drilling was carried out on the 2,250', 2,400', 2,550', 2,700', 2,850', 3,000' and 3,150' levels and a considerable amount of fill-in drilling remains to be done in 1982. The porphyry continues to depth and the amount and grade of ore in the porphyry varies from level to level to an even greater extent than was true on the upper levels of the Camflo property.

The first Malartic stope came into regular production in December. It is a good grade stope on the 2,400' level. The second will be a very high grade stope on the 2,550' level. Development for stopes on the 2,400', 2,550', 2,700' and 2,850' levels is well underway.

## Summary of 1981 Ore Extraction by Levels

Level	Tonnage	Ounces/ton
600-1,500	44,443	0.072
1,500-1,950	126,352	0.058
1,950-2,100	45,834	0.136
2,100-2,250	92,394	0.128
2,250-2,400	42,893	0.129
2,400-3,150	44,022	0.097
*Iron formation	17,193	0.040
TOTAL	<u>413,131</u>	<u>0.097</u>

\* The low grade iron formation from a surface stock pile replaced normal production lost due to a two week shutdown in June and July to rebuild the rotor of the main hoist motor.

## Personnel

The outstanding performance of the mine employees continues to be a major factor in the success of the gold mine.

## PINSON MINE

United Siscoe, in which the Corporation has a 43.7% interest, has a 26.25% interest in the open pit Pinson gold mine located in Nevada. This is a very successful operation. Production started in February, 1981, and by the middle of March, 1982, the entire US\$15.75 million bank loan plus interest had been repaid.

In 1981, 4,414,000 tons of waste, heap leaching ore and mill ore were mined of which 365,819 tons were milled. The mill grade was 0.195 ounces of gold per ton, recovery averaged 86.0% and 56,369 ounces of gold were sold at an



Pinson Gold Mine

average price of US\$443.02. The cost per ton milled amounted to US\$22.91 and the cost per ounce sold was US\$148.68. In the last six months of 1981, the mill treated 203,707 tons, an average of 1,107 tons per day, significantly above the designed capacity of 1,000 tons per day.

Remaining reserves in the main pits alone are approximately 2,900,000 tons with a conservatively estimated grade of 0.114 ounces of gold per ton. At 1,100 tons per day this is equivalent to a seven year reserve.

In 1982, the tonnage treated will increase, however, the average grade of ore treated will be lower than in 1981. In the first quarter of 1982, 101,134 tons grading 0.225 ounces of gold per ton were milled. Mining is now shifting to the lower grade 'B' ore. Heap leaching tests of stock-piled, very low grade material will be accelerated. Additional drilling on the 1,340,000 ton Preble deposit will better define this ore body which is presently estimated to average 0.08 ounces of gold per ton. A modest amount of exploration of other promising targets is also scheduled to be carried out during the year.

## **GOLD EXPLORATION AND DEVELOPMENT**

### **QUEBEC**

#### **Pandora**

In September, 1979, Camflo optioned the Pandora property near Cadillac, Quebec, from Queenston Gold Mines Limited. Several zones of gold mineralization extending east and west of this former producer were outlined with diamond drilling and in 1980-81, a head-frame and associated support facilities for underground exploration and development were erected at the old #3 shaft. The mine was pumped out in the spring of 1981 and 4,505' of underground drifting and 10,131' of diamond drilling were carried out.

The low price of gold, high interest rates and results which were not as favourable as anticipated in the areas investigated led to the decision to place the project on a care and maintenance basis.

Camflo has earned a 40% interest in the project to date and can increase this to 75% by payments

to Queenston totalling \$100,000. Although results to date are inconclusive, the programme was limited and the property deserves further assessment based on higher gold prices.

### **ONTARIO**

#### **Red Lake**

Camflo has interests in a number of gold properties in the Red Lake area of Ontario, primarily through its 54% ownership of Wilanour Resources Limited. During 1981, rehabilitation of Wilanour's mill was completed and test milling runs of old tailings, Buffalo open pit material and some Wilmar granodiorite were completed. Capital cost overruns, start-up delays, lower than expected grades and much lower gold prices made 1981 a very disappointing year.

During the year, \$4.6 million was spent on the Buffalo property. A surface plant was erected, a small open pit mined and a ramp developed from surface to the 175' level where underground exploration was carried out. Results from this exploration indicate that the mineralization was sufficiently discontinuous that mining it would incur either very high costs or large amounts of dilution. Development work has been stopped but the property still has exploration potential elsewhere.

Expenditures at the Wilanour underground amounted to \$5.4 million and were used for the dewatering and rehabilitation of the Wilanour mine, thereby gaining access to the Wilmar property, and for the rehabilitation and exploration of the Wilmar underground, in particular the East Breccia and Granodiorite zones. The Granodiorite is not viable at present gold prices, however, the East Breccia zone has excellent potential.

\$4.5 million has been expended on rehabilitating and enlarging the Wilanour mill and \$3 million on the townsite. A 13,861 ton test of the old tailings indicated that a recovered grade of approximately 0.03 ounces of gold per ton could be obtained from this material. Mill testing of both the Buffalo and Wilmar Granodiorite material was carried out late in the year.

In late April a drill hole confirmed the downward extension of the East Breccia's high grade 6E

zone intersecting 15' of 0.30, 25' of 0.94 (0.58 with high assays cut to one ounce) and 5.2' of 1.25 (1.00 cut) ounces of gold per ton. This stope alone in past years provided over 75,000 tons which averaged 0.40 ounces of gold per ton.

Mining exploration and development has been curtailed until additional financing can be arranged. Negotiations are being held with prospective joint venture partners and an application has been filed under the Ontario Government's GOMILL programme which, if accepted, would involve dedicating part of the facility for custom milling. Accordingly, the Corporation has made a provision for possible losses on its investment in and advances to Wilanour.

## Other

Late in the year following surface mapping and sampling, a wide-spread preliminary diamond drill programme consisting of ten holes, was carried out on property located along the Destor fault in north-eastern Ontario. All of the diamond drill holes encountered low grade gold mineralization over substantial widths. Additional exploration and development work on this project will be carried out when economic conditions improve.

## MANITOBA

During the field season a major surface exploration programme was undertaken, including 35 diamond drill holes on the Squall Lake property located near the town of Snow Lake. The drill programme confirmed the zones of gold mineralization which were indicated by surface work and earlier drilling programmes. Further diamond drilling will be required to define tonnages and grades.

On the Bissett project, a general geological mapping programme was carried out in conjunction with a limited amount of prospecting and sampling in the vicinity of known gold mineralization. Potential targets were identified and require further examination prior to diamond drilling.

## GENERAL

During the year, the Corporation explored other properties located in Manitoba, Ontario and Quebec, the results from which were inconclusive.

## EXPLORATION — OTHER MINERALS

The Corporation continues to maintain an interest in a Newfoundland potash exploration programme and a silver, lead and zinc project in Spain. Although a limited amount of work was carried out last year there were no significant developments. The Corporation plans to maintain its interest in these projects.

## OIL AND GAS INTERESTS

In 1981 Camflo and its subsidiaries invested \$9.3 million in the oil and gas industry, principally through joint venture projects with Signalta Resources Limited and Voyager Petroleum Ltd. Substantially all of this activity is in the Birch-Wavy Lake area of East-Central Alberta where both Signalta and Camflo have take-or-pay contracts with TransCanada PipeLines Limited.

During the year, the Corporation and its subsidiaries participated in the drilling of a total of 217 wells in Canada and the United States. This drilling resulted in 111 gas wells, 46 oil wells, and 60 dry holes, for an overall success rate of 72%.

### Wells Drilled — 1981

	Oil	Gas	Dry	Total	Success %
CANADA					
Signalta Joint Venture .	1	73	30	104	71
Voyager West Viking . . .	—	9	3	12	75
Westgrowth . . . . .	3	2	1	6	83
Renaissance . . . . .	—	3	1	4	75
Neomar . . . . .	1	21	2	24	92
TOTAL . . . . .	5	108	37	150	75
UNITED STATES					
Signalta Joint Venture .	9	3	7	19	63
Diamond Shamrock . .	2	—	—	2	100
Texas (Orbit) . . . . .	—	—	1	1	—
Neomar . . . . .	30	—	15	45	67
TOTAL UNITED STATES	41	3	23	67	66
GRAND TOTAL . . . . .	46	111	60	217	72

Proved and probable reserves, as shown on the accompanying table, increased to 105.2 BCF of natural gas and 690,600 barrels of oil.

## Net Proved and Probable Reserves

December 31, 1981

	Oil (BBLS)	Gas (BCF)
CANADA		
Signalta Joint Venture . . . .	51,800	41.1
Voyager . . . . .	—	36.8
Westgrowth . . . . .	20,900	1.7
Renaissance . . . . .	4,000	3.4
La Luz (Halkirk) . . . . .	—	.4
Neomar (63%) . . . . .	158,000	20.0
TOTAL CANADA . . . . .	234,700	103.4
UNITED STATES		
Signalta Joint Venture . . . .	14,500	.1
Diamond Shamrock . . . . .	85,400	—
East Texas . . . . .	—	1.7
Daleco . . . . .	32,000	—
Neomar (63%) . . . . .	324,000	—
TOTAL UNITED STATES	455,900	1.8
GRAND TOTAL . . . . .	690,600	105.2

At year end, Camflo held working interests in 703,000 gross acres and 133,000 net acres. A substantial portion of this acreage is within the gas contract area.

## Acreage Holdings

December 31, 1981

	Gross	Net
Signalta Joint Venture . . . .	235,000	71,000
Voyager West Viking . . . . .	106,000	14,000
Westgrowth . . . . .	14,000	1,000
Renaissance . . . . .	109,000	15,000
Neomar . . . . .	239,000	32,000
TOTAL . . . . .	703,000	133,000

Revenue for the year from oil and gas properties increased to \$8 million from \$5.1 million in 1980, due to more wells coming on stream and higher gas prices realized and the consolidation of Neomar Resources Limited with the accounts of the Corporation for 1981. Operating profit for 1981 was \$4.7 million before taking into account \$600,000 for the Petroleum and Gas Revenue Tax which became effective January 1, 1981 and which was effectively increased from 8 percent to 12 percent in 1982.

	1981	1980	1979
		(000's)	
Revenue . . . . .	\$7,987	\$5,087	\$3,685
Operating profit . . . .	\$4,090	\$3,176	\$2,415

The Corporation's oil and gas interests are becoming an increasingly significant asset. Both revenue and operating profits are projected to increase steadily over the next few years, with much lower levels of capital expenditures projected over this time period.

## Neomar Resources Limited

During 1981, Camflo increased its interest in Neomar from 53% to 63% through expenditures of \$1.2 million under the terms of agreements on oil and gas exploration and development, and \$1.75 million under the terms of an agreement to incur gold development and exploration expenditures on the Wilanour/Wilmar partnership in the Red Lake area of Ontario.

The major thrust of Neomar is its activity in the oil and gas industry both in Canada and the United States. 1981 saw more wells drilled, a higher success rate, more prospects and acreage added to inventory, and greater cash flow than ever before. A strong base for continued operations has been built. Total proven and probable reserves, which are 765,000 barrels of oil (versus 142,000 at the end of 1980) and 31,737 MCF of natural gas (versus 12,133 at the end of 1980).

## GEOTHERMAL ENERGY

Camflo owns a 43.7% interest in United Siscoe Mines Inc., which through its wholly-owned subsidiary Geothermal Kinetics Inc. (G.K.I.) is primarily involved in the development of geothermal energy to be used to generate electricity in the geysers area near San Francisco and the Imperial Valley in Southern California.

During 1981, United Siscoe, through an exchange offer, acquired the outstanding minority interest in G.K.I. The following summarizes the current status of G.K.I.'s principal energy projects.

## Geysers Area

**Rorabaugh Property** — 100% Working Interest in 437 acres, Sonoma County, California.

Fifty-three additional acres were purchased by G.K.I. and the California Department of Water Resources (DWR) for siting a 55,000 KW electric power generating plant.

DWR will own and operate the plant which will be supplied with steam from Rorabaugh. Plant design and construction plans have been completed and orders have been placed for major equipment. Plant site preparation is scheduled to commence this summer.

To date, three commercial wells have been drilled on this property. G.K.I.'s agreement with DWR provides for all wells (approximately 11) to be completed not later than eight months prior to scheduled commercial plant operation in mid-1985.

**Boggs Mountain Property** — 100% Working Interest in 1,785 acres, Lake County, California.

An exploratory well, which was drilled to 4,000 feet during 1981, failed to encounter the geology and temperature gradients projected. After a thorough evaluation of the well logs, geology and geophysics, it was determined the prospect had no geothermal potential and it was abandoned.

**Combs Prospect** — 763 acres, Lake County, California.

This prospect was abandoned during 1981 after an exploratory well drilled by a joint venture between G.K.I. and MCR Geothermal Corporation did not identify commercial quantities of geothermal steam.

**Binkley Property** — 471 acres, Lake County, California.

An agreement with the California Department of Water Resources, which provides for G.K.I. to have a 37.5% working interest, is expected to be finalized in the near future. G.K.I. will commence contributing its pro-rata share of future costs after the \$1.3 million contributed by DWR for drilling an exploratory well on the property has been expended.

### Imperial Valley, California

**South Brawley Property** — 37.5% Working Interest in 11,400 acres, Imperial Valley, California.

During 1981, Milestone I of a three-phase programme, which included exploration well

drilling, flow testing, steam production and brine disposal favourably confirmed the technical and economic feasibility of commercial electric power generation from this property. In November 1981, the U.S. Department of Energy (DOE), based upon the results of Milestone I, authorized disbursement of \$8.5 million for Milestone II of the CU-I Venture under a \$49.4 million geothermal loan guaranteed by the DOE.

In late 1981 and early 1982, two additional wells were drilled under Milestone II. These wells are currently being tested and evaluated. Initial test results to date show that these wells will meet the requirements under the DOE Program. Testing of an enhanced brine handling system and the development of a preliminary engineering design for the electric generating facility are also currently underway.

The DOE guaranteed loan to the CU-I Venture is based on only some 640 acres out of the total land holdings. Assuming this venture is economically successful, there remains a large acreage available for future development and expansion.

### COAL

La Luz Mines Limited through a wholly-owned subsidiary operates two open pit coal mines located in south central Ohio. Camflo Mines Limited owns a 58% interest in La Luz and to date has supplied substantially all of the financing for these operations.

The Crown City Mine comprises some 11,000 acres in Gallia and Lawrence counties including surface, coal and petroleum rights of this acreage. Facilities include open pit mining and stripping equipment, required support and maintenance facilities and a modern coal washing plant capable of producing a minimum of 500,000 tons annually of a washed coal product. The operations also include a modern stacking and barge loading facility on the Ohio River some 8 miles south of the mine.

The Muskingum operation located north of Zanesville, Ohio comprises some 17,000 surface acres. The coal is mined on a lease basis having a royalty payment of \$3.51/ton mined. Unwashed coal is sold to a major utility's coal fired generating station 9 miles north of the mine.

Coal shipments and revenue per ton from these mines over the past three years are summarized below:

	1981	1980	1979
Coal shipments (tons):			
Crown City . . . . .	388,000	452,000	403,000
Muskingum . . . . .	440,000	680,000	534,000
	<u>828,000</u>	<u>1,132,000</u>	<u>937,000</u>
Revenue per ton (U.S.)	<u>\$ 32.69</u>	<u>\$ 28.90</u>	<u>\$ 24.90</u>

Results of the two coal mines were extremely adverse during 1981 due to a lengthy industry-wide strike, high interest rates associated with an excessive debt and production problems at Muskingum property as a result of encountering faults and old mine workings.

During the second half of 1981, after the conclusion of the mine workers' strike, significant management and operating changes were implemented. The impact of these changes in the short term resulted in higher costs as mining sequences were altered, responsibilities changed and other associated adjustments occurred. The beneficial impact of these changes, however, did not become evident until the first quarter of 1982 when the Crown City mine averaged over 41,000 tons per month and broke even, after bank interest, and the Muskingum operation averaged 54,000 tons per month and produced a small profit, after bank interest, in the month of March.

The major customer, due to the drop in demand for electricity resulting from the current industrial recession, has advised La Luz that it will be reducing its contracted coal purchases by 10% for the balance of the year. Efforts are underway to reduce the impact of this tonnage reduction by scaling back the mines' production costs and deferring proposed capital expenditures.

Efforts are continuing to improve the financial condition of the coal enterprises and to this end discussions are underway with all affected parties. Although major operating improvements have occurred in the last half of 1981 and the first quarter of 1982, further improvements are necessary before the operation is in an acceptable financial position.

The Corporation has provided for a write off of its investment in and advances to the coal operations and accordingly had advised La Luz that it will provide no further funds to support ongoing operations. At the present time the mines are

generating sufficient funds to maintain operations, however, any major set-back in the ability to meet its coal delivery schedules or fulfill its obligations will have an immediate effect on its financial stability.

## FINANCIAL ANALYSIS

The overall results are summarized in the table below, with a detailed analysis following.

**TABLE I  
CONDENSED COMPARATIVE RESULTS  
OF OPERATIONS**

	1981	1980	1979
	(\$000)		
Income from continuing operations, before undernoted . . . . .	\$ 13,019	\$20,063	\$14,645
Interest . . . . .	(13,135)	(4,204)	(2,140)
	(116)	15,859	12,505
Loss on discontinued operations . . . . .	(13,056)	(4,629)	(3,013)
Write-offs and provisions for losses . . . . .	(30,718)		
Net income (loss) . . . . .	<u>\$(43,890)</u>	<u>\$11,230</u>	<u>\$ 9,492</u>
Net income (loss) per share	<u>\$ (12.06)</u>	<u>\$ 3.10</u>	<u>\$ 2.82</u>

## Continuing Operations

### Gold

The Corporation's gold mine in Val d'Or, Quebec continues to be the main source of revenue and profits for the Corporation, notwithstanding the lower gold prices and ore grades experienced in 1981.

**TABLE II  
GOLD REVENUE ANALYSIS**

	Average price of gold/oz.	Ounces produced	Total Revenue (\$000)
1981 . . . . .	\$549	44,788	\$24,578
1980 . . . . .	\$738	50,478	\$37,253
1979 . . . . .	\$350	70,639	\$24,698

**TABLE III  
GOLD REVENUE AND PROFIT PER OUNCE**

	1981	1980	1979
Revenue . . . . .	<u>\$549</u>	<u>\$738</u>	<u>\$350</u>
Direct operating costs . . . . .	191	159	97
Mining tax and depreciation . .	71	99	50
	<u>262</u>	<u>258</u>	<u>147</u>
Operating profit per ounce . . .	<u>\$287</u>	<u>\$480</u>	<u>\$203</u>

The decline in operating profits during 1981 was substantially as a result of lower bullion revenues. An analysis of the \$12.7 million reduction in bullion revenues can be summarized as follows:

	(\$ million)
Reduction due to lower grade . . . . .	\$ 3.2
Reduction due to lower gold prices . . . . .	9.5
	<u>\$12.7</u>

It should be noted that during the last two years, certain mining constraints have caused Camflo to mine material which was significantly below average ore reserve grade, as demonstrated below.

**TABLE IV  
COMPARISON OF MINE ORE GRADE TO  
ANNUAL PRODUCTION OR GRADE**

	1981	1980	1979
	(oz./ton)		
Average grade of proven and indicated ore . . . . .	<u>0.130</u>	<u>0.129</u>	<u>0.144</u>
Average grade of annual production of ore . . . . .	<u>0.097</u>	<u>0.109</u>	<u>0.150</u>

These constraints have now been resolved with the result that Camflo's normal mining sequences can be resumed and production at average ore reserve grade levels can be sustained.

### Petroleum and Natural Gas

Revenue and profits from the Corporation's petroleum and natural gas interests continued to increase as a result of greater volumes and higher revenue per mcf., notwithstanding the decrease in profit per mcf. as a result of the Canadian federal government's Petroleum and Natural Gas Tax.

**TABLE V  
REVENUE AND PROFIT ANALYSIS**

	1981	1980	1979
	(mcf)*		
Production volumes			
Canada . . . . .	3,473,000	2,374,000	2,054,000
United States . . . . .	455,000	386,000	463,000
	<u>3,928,000</u>	<u>2,760,000</u>	<u>2,517,000</u>
	(\$/mcf)		
Revenue . . . . .	\$2.03	\$1.84	\$1.46
Costs, including depletion . .	.82	.69	.50
P.G.R.T. . . . .	.17		
	<u>.99</u>	<u>.69</u>	<u>.50</u>
Operating profit . . . . .	<u>\$1.04</u>	<u>\$1.15</u>	<u>\$ .96</u>

The Corporation expended \$9.3 million on expanding its petroleum and natural gas holdings by participating in the drilling of 217 wells, with an overall success ratio of 72%. As a result the Corporation's reserves increased by 17% during the year.

**TABLE VI  
NET PROVED AND PROBABLE RESERVES  
(BCF)\***

	1981	1980	1979
Canada . . . . .	105	93	64
United States . . . . .	7	3	3
	<u>112</u>	<u>96</u>	<u>67</u>

\*Gas including oil converted at net equivalent values.

### Interest

Interest expense increased significantly during the year as the result of persistently high interest rates on increased debt. Interest rates remained high throughout 1981, compounding their adverse impact on earnings as the Corporation relied heavily on increased bank borrowings to fund its substantial exploration and development commitments.

### Discontinued Operations

The financial results from the coal operations continued to be disappointing. The operations were adversely affected by a 72 day coal strike and the occurrence of faults and old mine workings, which together significantly reduced production and increased operating costs per ton, as demonstrated in the following table:

**TABLE VII**

	1981	1980	1979
Tons sold . . . . .	<u>828,000</u>	<u>1,132,000</u>	<u>937,000</u>
		(\$U.S.)	
Average price per ton sold	\$32.69	\$28.90	\$24.90
Cost per ton, before interest, royalties and depreciation . . . . .	31.73	24.90	25.08
Contribution	<u>\$ .96</u>	<u>\$ 4.00</u>	<u>\$ (.18)</u>

These operations were also significantly impaired by interest costs which increased by over 47% or \$2.7 million as the result of continuing high interest rates on increasing and excessive debt.

The adverse impact of these developments on the Corporation were compounded by the fact that 100% of the results of these operations were consolidated during the year, versus 50% in previous years, due to the acquisition of the other participant in the coal operations late in 1980.

An analysis of the increase in the coal operations' losses in 1981 is summarized below:

	(\$000)
Loss from coal operations in 1980 .....	\$ 4,629
Increase due to acquiring interests of other participant .....	4,629
Total 1980 comparative coal losses .....	9,258
Increased 1981 interest on increased debt .....	2,659
Losses attributable to 1981 coal strike and other production deficiencies .....	1,139
Loss from coal operations in 1981 .....	<u>\$13,056</u>

### Write-Offs and Provisions for Losses

Continued disappointing results from the coal operations combined with significant commitments in exploration projects, in which the Corporation withdrew its support, have resulted in the recording of these provisions.

The one time write-offs and provision for losses were comprised of the following:

	\$ million
Provision for loss on discontinuance of coal operations .....	\$20.5
Write-off of investment in and advances to Wilanour Resources' Red Lake exploration project .....	8.5
Write-off of other exploration expenditures .....	1.7
	<u>\$30.7</u>

### Liquidity and Capital Resources

The Corporation's funding sources in 1981 were substantially from bank borrowings which increased during the year by \$44 million and \$8.2 million from operations.

The above funds were applied to expenditures on Wilanour's Red Lake exploration project in the amount of \$8.3 million and financing of the coal operations in the amount of \$16.9 million. The Corporation has discontinued its support of both these activities and no further expenditures are anticipated. Further acquisitions in shares of United Siscoe Mines Inc. plus advances to Geothermal Kinetics, Inc. to assist in that company's financial requirements totalled \$5 million. The company also increased its petroleum

and natural gas interests by \$9.3 million, acquired operating fixed assets of \$2.6 million and expended \$5 million on exploration projects, primarily on the Pandora property. Significant cut-backs in all of these programs were instituted in early 1982. The working capital deficiency of \$2.9 million at the end of 1980 was substantially eliminated by 1981 year end.

Significant cut-backs in the Corporation's capital expenditure programs have been initiated. This activity has been implemented in an orderly manner to ensure that the Corporation's long term asset base is not impaired.

The Corporation's primary objective of eliminating a substantial portion of its debt burden becomes critical in light of the fact that 50% of the book value of capital assets are non-revenue producing. The extremely high debt service costs absorbs substantial cash flow from the existing revenue producing asset base. This asset base, which includes the gold mine and petroleum and natural gas interests, have values significantly in excess of the amounts recorded in the Corporation's accounts. These assets are expected to fulfill the Corporation's cash requirements in the near term in order to allow the Corporation time to implement its immediate objective of disposing of those assets not contributing to equity growth.

# Consolidated Statement of Operations

Year Ended December 31, 1981

(Expressed in thousands of dollars, except per share data)

	1981	1980 (restated) (Note 2)
<b>Revenue</b>		
Bullion .....	\$ 24,578	\$ 37,253
Petroleum and natural gas .....	7,987	5,087
	<u>32,565</u>	<u>42,340</u>
Operating and administrative expenses .....	17,237	16,441
Depreciation, depletion and amortization .....	2,736	1,592
Interest, including interest on long term liabilities of \$11,225 (1980, \$3,610) ..	13,135	4,204
Exploration expenditures written off .....	1,675	—
	<u>34,783</u>	<u>22,237</u>
	(2,218)	20,103
Provision for loss on investment in Wilanour (Note 3) .....	(8,534)	
Gain on sale of marketable securities .....	3,608	2,839
Other income .....	1,690	3,102
Income (loss) before income taxes and other items .....	(5,454)	26,044
Income taxes, including deferred taxes of \$1,300 (1980, \$6,550) .....	580	9,650
	<u>(6,034)</u>	<u>16,394</u>
Minority interest in subsidiary .....	(169)	
Share of loss of affiliated companies .....	(4,122)	(535)
Income (loss) from continuing operations .....	(10,325)	15,859
Loss from discontinued coal operations .....	(13,056)	(4,629)
Income (loss) before extraordinary item .....	(23,381)	11,230
Extraordinary item		
Loss on discontinuance of coal operations (note 2) .....	(20,509)	—
<b>Net Income (loss)</b> .....	<u>\$ (43,890)</u>	<u>\$ 11,230</u>
<b>Income (loss) per share</b>		
From continuing operations .....	\$ (2.83)	\$ 4.38
Before extraordinary item .....	\$ (6.42)	\$ 3.10
Net income (loss) .....	<u>\$ (12.06)</u>	<u>\$ 3.10</u>

# Consolidated Statement of Retained Earnings (Deficit)

Year Ended December 31, 1981

(Expressed in thousands of dollars)

	1981	1980
<b>Retained Earnings at Beginning of Year</b> .....	\$ 32,876	\$ 25,570
Net income (loss) .....	(43,890)	11,230
	<u>(11,014)</u>	<u>36,800</u>
Dividends .....	1,987	3,924
<b>Retained Earnings (Deficit) at End of Year</b> .....	<u>\$ (13,001)</u>	<u>\$ 32,876</u>

# Consolidated Balance Sheet

as at December 31, 1981

(Expressed in thousands of dollars)

<b>Assets</b>	<b>1981</b>	<b>1980</b>
		(restated) (Note 2)
<b>Current Assets</b>		
Cash .....	\$ 78	\$ 1,203
Bullion .....	1,138	776
Marketable securities, at lower of cost \$7,417 (1980, \$2,236) and market \$5,677 (1980, \$12,000) .....	5,677	2,236
Accounts receivable .....	5,696	2,123
Mine operating supplies .....	1,655	1,396
Prepaid expenses and deposits .....	189	170
	<u>14,433</u>	<u>7,904</u>
<b>Fixed Assets</b>		
Property, buildings and equipment, at cost .....	9,868	7,568
Less accumulated depreciation and depletion .....	6,185	5,196
	<u>3,683</u>	<u>2,372</u>
<b>Net Assets of Discontinued Coal Operations</b> (note 2) .....		16,442
<b>Investments in Affiliated Companies</b> (note 4) .....	33,631	31,333
<b>Petroleum and Natural Gas Interests</b> (note 5) .....	42,665	34,297
<b>Deferred Mineral Exploration and Development Expenditures</b> (note 6) .....	11,314	10,762
<b>Other Assets</b> .....	<u>2,442</u>	<u>1,694</u>
	<u>\$ 108,168</u>	<u>\$ 104,804</u>

## Auditors' Report

To the Shareholders of  
Camflo Mines Limited

We have examined the consolidated balance sheet of Camflo Mines Limited as at December 31, 1981 and the consolidated statements of operations, retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada  
April 30, 1982

Thorne Riddell  
Chartered Accountants

<b>Liabilities</b>	<b>1981</b>	<b>1980</b>
		(restated) (Note 2)
<b>Current Liabilities</b>		
Bank indebtedness (note 7) .....	\$ 585	\$ 2,774
Accounts payable and accrued liabilities .....	7,120	2,743
Provision for losses on discontinuance of coal operations (note 2) .....	5,000	
Taxes payable .....	1,744	1,266
Current maturities of long term liabilities .....		4,020
	<u>14,449</u>	<u>10,803</u>
<b>Long Term Liabilities</b> (note 7) .....	<u>83,440</u>	<u>39,450</u>
<b>Deferred Income Taxes</b> .....	<u>13,407</u>	<u>12,107</u>
<b>Minority interest</b> .....	<u>2,946</u>	<u>2,184</u>
<hr/>		
<b>Capital Stock and Deficit</b>		
<b>Capital Stock</b> (note 8)		
Authorized		
5,000,000 shares, par value \$1 each		
Issued		
4,075,057 shares (1980, 4,037,857 shares) .....	11,320	10,714
<b>Retained Earnings (Deficit)</b> .....	<u>(13,001)</u>	<u>32,876</u>
	(1,681)	43,590
Deduct company's interest in its shares held by subsidiary and affiliated companies	<u>4,393</u>	<u>3,330</u>
	<u>(6,074)</u>	<u>40,260</u>
	<u>\$ 108,168</u>	<u>\$ 104,804</u>

Contingent liabilities and commitments (notes 2 and 11)

Approved by the Board



R. E. Fasken, Director



R. M. Smith, Director

# Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1981

(Expressed in thousands of dollars)

	1981	1980 (restated) (Note 2)
<b>Working Capital Derived from</b>		
Operations .....	\$ 8,211	\$ 24,536
Increase in long term liabilities .....	43,990	21,476
Issue of capital stock .....	606	7,558
Other .....		26
	<u>52,807</u>	<u>53,596</u>
<b>Working Capital Applied to</b>		
Additions to		
Investment in and advances to affiliated companies .....	5,065	19,419
Petroleum and natural gas interests .....	9,318	9,245
Deferred exploration and development expenditures .....	5,008	8,768
Fixed assets .....	2,584	917
Acquisition of Neomar Resources Limited .....		2,724
Acquisition of and advances to Wilanour Resources Limited (note 3) .....	8,309	
Discontinued coal operations .....	16,905	12,030
Dividends .....	1,987	3,924
Other .....	748	
	<u>49,924</u>	<u>57,027</u>
<b>Increase (Decrease) in Working Capital Position .....</b>	<b>2,883</b>	<b>(3,431)</b>
<b>Working Capital (Deficiency) at Beginning of Year .....</b>	<b>(2,899)</b>	<b>532</b>
<b>Working Capital Deficiency at End of Year .....</b>	<b>\$ 16</b>	<b>\$ 2,899</b>

## Management Report

The annual report and financial statements have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the annual report including the financial statements.



R. M. Smith, President



C. B. Burton, Vice-President Finance

# Notes to Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 1981

*(Tabular amounts in thousands)*

## 1. Summary of Significant Accounting Policies

### (a) Basis of presentation

#### Subsidiary companies

These financial statements include the accounts of the company, C.M.L. Inc. a wholly owned U.S. subsidiary, Neomar Resources Limited which is 62.9% owned, (1980, 53%) and La Luz Mines Limited, which is 58% owned. All material intercompany transactions have been eliminated.

La Luz Ohio, Inc., a wholly owned U.S. subsidiary of La Luz Mines Limited, and Wilanour Resources Limited which is 54% owned (1980, 26%) have been accounted for using the equity method, as discussed in notes 2 and 3.

#### Affiliated company

The company owns 43.7% (1980, 44.6%) of the outstanding shares of United Siscoe Mines Inc. The company follows the equity method of accounting for this investment.

#### Joint ventures and partnerships

The company conducts various mineral exploration and development activities and substantially all of its petroleum and natural gas activities jointly with others. These financial statements reflect the company's proportionate interest in such activities.

#### Intercompany shareholdings

Certain subsidiary and affiliated companies own shares in the company. The company's interest in the carrying value of such shares has been deducted from shareholders' equity.

#### Earnings per share

The company's earnings per share have been calculated on the weighted average number of shares outstanding after deducting intercompany shareholdings.

### (b) Bullion

Bullion is carried at net realizable value less amounts received in advance pending final settlement.

### (c) Mine operating supplies

Mine operating supplies are carried at cost.

### (d) Depreciation, depletion and amortization

#### (i) Gold

The company provides for depreciation on its gold mine assets and amortization of deferred mine exploration and development expenditures on a straight-line basis over the estimated remaining life of the mine, as determined by proven ore reserves established from time to time. Other assets are being depreciated on a straight-line basis at a rate of 20% per annum.

#### (ii) Petroleum and natural gas

The company follows the full cost method of accounting for petroleum and natural gas whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include acquisition costs, geological and geophysical expenses, carrying charges on non-producing property, costs of drilling both productive and unproductive wells and related production equipment. Proceeds received on disposal of properties are ordinarily credited against such costs. Depreciation and depletion are provided on the net costs using the composite unit of production method based on total estimated proven reserves.

The company may acquire interests in petroleum and natural gas leases which, at the time of acquisition are recorded in the balance sheet as inventory of leases held for resale and are valued at the lower of cost and net realizable value. Gains and losses on the disposition of such leases are included in income.

### (e) Deferred mineral exploration and development expenditures

Expenditures on mineral exploration programmes are deferred on a specific project basis until the viability of the project is determined. If a project is abandoned, the accumulated project costs are charged to income. If a project is developed, the related accumulated costs are amortized against future income from that project.

### (f) Translation of foreign subsidiaries' (U.S.) financial statements

U.S. currency transactions and account balances have been translated into Canadian dollars as follows:

- (i) Current assets and liabilities, at exchange rates prevailing at the year end;

- (ii) All other assets and liabilities, at exchange rates prevailing at the date the assets were acquired or the liabilities incurred;
  - (iii) Revenues and expenses, at the average exchange rate for the year except for depreciation, depletion and amortization which is based on the cost of assets as translated;
  - (iv) Unrealized foreign exchange gains and losses are included in operations.
- (g) Retirement plans  
The company maintains retirement plans covering substantially all Canadian employees. Retirement plan expense is accrued and funded currently and includes current costs and the amortization over a fifteen year period of the unfunded past service costs relating to the company pension plan.

## 2. Discontinuance of Coal Operations

La Luz Ohio, Inc., a wholly owned subsidiary of La Luz Mines Limited, operates coal mines in the State of Ohio, U.S.A. During the year ended December 31, 1981, the coal operations incurred significant operating losses. In addition, La Luz Ohio, Inc. is in default of a provision to maintain \$2 million of working capital, as defined, under the lease to mine one of its coal properties and has a substantial amount of debt which is due in the next fiscal period. The future of La Luz Ohio, Inc. depends on its ability to obtain financing, remedy the lease default and attain profitable operations.

The Board of Directors decided early in 1982 to discontinue Camflo's involvement in coal operations. The estimated loss on disposal of coal operations of \$20 million consists of a write-off of Camflo's investment in La Luz Ohio, Inc. and a provision of \$5 million representing additional funds estimated to be required by La Luz Ohio, Inc. to sustain the coal operations until such disposal can be arranged and implemented. This estimated loss is shown as an extraordinary item in the consolidated statement of operations. The provision of \$5 million is included in current liabilities in the balance sheet.

Camflo does not intend to guarantee any additional financing for the coal operations, nor to provide a guarantee to the lessor of the coal property as a remedy to the lease default. However, Camflo is contingently liable as guarantor of bank and other indebtedness of the coal operations in the amount of U.S. \$7.6 million at December 31, 1981. No provision has been made by Camflo for payment of this amount. Camflo is also contingently liable in respect of its guarantee of surety bonds furnished by the coal operations in connection with the restoration of land affected by strip mining to the extent of approximately U.S. \$13 million. No provision has been made for this since management believes that the sale of the coal operations as operating mines will be completed without recourse to the guarantee.

The assets and liabilities of La Luz Ohio, Inc. have not been included in the consolidated balance sheet as at December 31, 1981. Its results of operations for the year ended December 31, 1981 have been shown separately in the consolidated statement of operations. The figures for 1980 included in the consolidated financial statements have been restated to conform with 1981 presentation. Such restatement had no effect on consolidated net income or capital stock and deficit.

A condensed consolidated balance sheet of La Luz Ohio, Inc. as at December 31, 1981 and 1980 in U.S. dollars is as follows:

	1981	1980
Current assets . . . . .	\$ 5,654	\$ 5,332
Fixed assets . . . . .	30,818	31,956
Other assets . . . . .	4,050	3,274
	<u>\$40,522</u>	<u>\$40,562</u>
Bank loans . . . . .	\$16,535	\$17,967
Accrued reclamation costs . . . . .	1,900	2,664
Other current liabilities . . . . .	4,457	5,200
Advances from affiliated companies . . . . .	37,990	23,865
Capital stock and deficit . . . . .	(20,360)	(9,134)
	<u>\$40,522</u>	<u>\$40,562</u>

### 3. Investment in Wilanour Resources Limited

During 1981 the company effectively increased its ownership in Wilanour Resources Limited from 26.4% to 54.2% (see note 6). The consolidated statement of operations includes the company's share in the loss of Wilanour for the year and a provision of \$8,534,000 to write down the investment in and advances to Wilanour to a nominal value including \$1,500,000 in respect of advances made subsequent to December 31, 1981.

A condensed consolidated balance sheet of Wilanour Resources Limited as at December 31, 1981 is as follows:

Current assets . . . . .	\$ 1,648
Fixed assets . . . . .	9,963
Deferred exploration and development expenditures . . . . .	3,722
	<u>\$15,333</u>
Bank indebtedness . . . . .	\$ 7,447
Accounts payable and accrued liabilities . . . . .	3,702
Notes payable to Camflo Mines Limited . . . . .	2,258
Minority interest . . . . .	1,806
Shareholders' equity . . . . .	120
	<u>\$15,333</u>

Wilanour's fixed assets and deferred exploration and development expenditures relate to the exploration and development of its former gold producing properties in the Red Lake area of Ontario. The fixed assets include rehabilitation of the existing mill and the acquisition of townsite assets. Exploration of the property was not completed and an economically viable orebody has not been proven. Subsequent to December 31, 1981 a decision was made to curtail all mining development work, significantly reduce exploration activities and place the facilities under care and maintenance.

Wilanour incurred a loss for the year ended December 31, 1981 of \$6.3 million and has a serious working capital deficiency. It is in default of a covenant given in respect of its existing term bank credit whereby it agreed not to incur certain capital expenditures of more than \$6.5 million. Accordingly the term bank credit may at the lenders option immediately become due and payable and all collateral securities shall become enforceable.

Wilanour has utilized all currently available lines of credit from its banker and does not have any available internal sources of financing. Camflo will not provide the additional financing to continue the exploration program in order to determine if an economically viable orebody exists on the property.

### 4. Investments in Affiliated Companies

	<u>1981</u>	<u>1980</u>
United Siscoe Mines Inc., after deducting \$3,132 (1980, \$2,068) in respect of United Siscoe's investment in the capital stock of the company . . . . .	\$28,214	\$30,330
Advances to Geothermal Kinetics Inc. . . . .	3,667	
Wilmar Mines Limited . . . . .	1,750	
Wilanour Resources Limited (note 3) . . . . .		1,003
	<u>\$33,631</u>	<u>\$31,333</u>

The advances to Geothermal Kinetics Inc. are payable on demand, bear interest at U.S. bank prime plus 1½% and are secured by the shares of a subsidiary.

The excess of the cost of the investment in United Siscoe Mines Inc. over the company's share of the underlying assets at the dates of acquisition, before adjustments for reciprocal shareholdings, has been attributed to deferred geothermal exploration and development interests, gold prospects and other assets. Summarized financial information of United Siscoe Mines Inc. is as follows:

**UNITED SISCOE MINES INC.**  
**Condensed Consolidated Statement of Net Assets**  
as at December 31, 1981

	1981	1980
Current assets . . . . .	\$ 3,141	\$18,420
Deferred geothermal and mineral exploration and development costs . . . . .	44,973	26,497
Petroleum and natural gas interests . . . . .	3,377	3,208
Investment in Camflo . . . . .	(5,302)	1,304
Other . . . . .	10,462	10,497
	<u>56,651</u>	<u>59,926</u>
Current liabilities . . . . .	22,875	19,039
Long term liabilities . . . . .	7,935	8,287
Deferred revenue, deferred taxes and minority interests . . . . .	6,437	6,928
	<u>37,247</u>	<u>34,254</u>
Net assets at end of year . . . . .	<u>\$19,404</u>	<u>\$25,672</u>
Camflo's share . . . . .	<u>\$ 8,480</u>	<u>\$11,449</u>

**Condensed Consolidated Statement of Operations**  
Year Ended December 31, 1981

	1981	1980
Revenue . . . . .	\$ 8,357	\$ 774
Costs and expenses . . . . .	11,102	3,318
Loss before undernoted . . . . .	(2,745)	(2,544)
Other income (loss) . . . . .	(2,811)	316
Share of income (loss) before extraordinary item of Camflo . . . . .	(3,907)	1,909
Extraordinary gains (losses) including share of extraordinary loss of Camflo . . . . .	(3,825)	7,328
Net income (loss) for the year . . . . .	<u>\$(13,288)</u>	<u>\$ 7,009</u>
Camflo's share . . . . .	<u>\$ (2,450)</u>	<u>\$ (500)</u>

Camflo's share of net income of United Siscoe excludes income from United Siscoe's reciprocal shareholdings in Camflo. In addition, in 1980 Camflo's share of the extraordinary gain on disposition of a geothermal property has been reduced by the portion of the excess cost of investment in United Siscoe allocated by Camflo to that property.

**5. Petroleum and Natural Gas Interests**

	1981	1980
Petroleum and natural gas properties together with exploration and development thereon and production equipment . . . . .	\$47,168	\$37,257
Accumulated depreciation and depletion . . . . .	4,503	2,960
	<u>\$42,665</u>	<u>\$34,297</u>

**6. Deferred Mineral Exploration and Development Expenditures**

	1981	1980
Producing properties		
Preproduction expenditures, less accumulated amortization . . . . .	\$ 1,649	\$ 1,726
Mine exploration and development expenditures . . . . .	275	337
	<u>1,924</u>	<u>2,063</u>
Non-producing properties		
Red Lake — gold . . . . .	460	3,098
Pandora — gold . . . . .	6,023	2,797
Kasmere — uranium . . . . .		986
Iberian — silver . . . . .	708	836
Pronto — potash . . . . .	325	401
Other . . . . .	1,874	581
	<u>9,390</u>	<u>8,699</u>
	<u>\$11,314</u>	<u>\$10,762</u>

During 1980, the company formed partnerships with Wilanour Resources Limited and a subsidiary company, Neomar Resources Limited to carry out exploration, development and rehabilitation of certain of their mining properties situated in the Red Lake area of Northwestern Ontario. Camflo having expended \$7 million on the properties by December 31, 1981, has transferred its interest in the partnerships to Wilanour and Neomar for 844,286 shares and 445,636 shares respectively (see note 3).

The company participates in the Iberian and Pronto exploration and development programs with certain related companies as well as other companies.

## 7. Long Term Liabilities

	1981	1980
Term and production bank indebtedness . . . . .	\$80,145	\$42,208
Deferred revenue . . . . .	2,100	608
Other . . . . .	1,195	654
	<u>83,440</u>	<u>43,470</u>
Less current maturities . . . . .		4,020
	<u>83,440</u>	<u>39,450</u>

Bank indebtedness consists of term and production loans under available lines of credit aggregating \$85 million at December 31, 1981. Terms of repayment are to be established during 1982. Interest rates on loans outstanding under the lines of credit range from ¼% to 1% above bank prime rate.

The bank indebtedness is secured by hypothecation of marketable securities, petroleum and natural gas interests, an agreement to pledge, if required, petroleum and natural gas interests not presently secured and a \$25,000,000 floating charge debenture on all the company's assets. The company's subsidiaries have also pledged their petroleum and natural gas assets as well as property, buildings and other assets to secure their bank loans.

## 8. Capital Stock

During the year, 37,200 shares were issued for \$606,000 on exercise of options at prices between \$15.20 and \$29.92 per share.

At December 31, 1981, there were 66,050 shares under outstanding options at prices ranging between \$15.20 per share and \$29.92 per share (1980, 73,750 shares at prices from \$15.20 to \$17.75).

There are 47,000 shares reserved for future issues under an incentive stock option plan at December 31, 1981 (1980, 76,500 shares).

## 9. Business Segments

(a) The company's operations consist of two business segments: gold mining and petroleum and natural gas production. Presented below are segmented data relative to these activities:

	1981		1980	
	Revenue	Operating profits (losses)	Revenue	Operating profits (losses)
Gold . . . . .	\$24,578	\$ 12,841	\$37,253	\$ 24,208
Petroleum and natural gas . . . . .	7,987	4,090	5,087	3,176
	<u>\$ 32,565</u>	<u>\$ 16,931</u>	<u>\$ 42,340</u>	<u>\$ 27,384</u>
Unallocable expenses				
General and administrative . . . . .		3,567		2,796
Interest . . . . .		13,135		4,204
Corporate depreciation . . . . .		772		281
Provision for loss on investment in Wilanour Resources Limited . . . . .		8,534		
Other . . . . .		1,675		
		<u>(10,752)</u>		<u>20,103</u>
Other income . . . . .		5,298		5,941
Income (loss) before taxes and other items . . . . .		<u>\$ (5,454)</u>		<u>\$ 26,044</u>
Operating results by geographic area				
Canada . . . . .	\$ 30,850	\$ 16,045	\$ 41,594	\$ 27,144
United States . . . . .	1,715	886	746	240
	<u>\$ 32,565</u>	<u>\$ 16,931</u>	<u>\$ 42,340</u>	<u>\$ 27,384</u>

(b) Additional segment information:

	1981	1980
(i) Industry		
Identifiable assets		
Gold .....	\$ 5,975	\$ 6,150
Petroleum and natural gas .....	47,681	36,050
	<u>\$ 53,656</u>	<u>\$ 42,200</u>
Capital expenditures		
Gold .....	\$ 281	\$ 356
Petroleum and natural gas .....	9,318	9,245
	<u>\$ 9,599</u>	<u>\$ 9,601</u>
Depreciation and depletion		
Gold .....	\$ 399	\$ 362
Petroleum and natural gas .....	1,565	950
Corporate .....	772	280
	<u>\$ 2,736</u>	<u>\$ 1,592</u>
(ii) Geographic area		
Identifiable assets		
Canada .....	\$ 45,080	\$ 37,471
United States .....	8,576	5,120
Spain .....	708	836
	<u>54,364</u>	<u>43,427</u>
Corporate assets .....	20,173	30,044
Investments in affiliated companies .....	33,631	31,333
	<u>\$108,168</u>	<u>\$104,804</u>

**10. Related Party Transactions**

At December 31, 1981 \$500,000 (1980, \$500,000) of residence loans bearing interest substantially at 7% per annum and \$700,000 (1980, \$153,000) of interest free loans to officers for the purchase of company stock remained outstanding.

Fees for geological, engineering, legal and advisory services totalling approximately \$473,000 (1980, \$413,000), have been paid to consultants and other professionals who are also directors of the company or of a related company.

The company shares office premises with certain related companies and certain administrative expenses are allocated amongst the companies. As at December 31, 1981, \$555,000 was receivable from affiliated companies.

During the year the company purchased marketable securities from an affiliated company for \$2,563,000 which approximated market value at the time of the purchase.

**11. Contingent Liabilities and Commitments**

- (a) The retirement plan unfunded past service liability of the Company and its subsidiaries and affiliates amounted to \$276,000 based on an actuarial valuation dated December 31, 1979.
- (b) Under the provisions of a deferred retirement plan, the payments required to be made by United Siscoe Mines Inc., which equal those payments required by the company, may in certain circumstances become a liability of the company.
- (c) Subsequent to year end the company has entered into forward gold sales contracts for 31,850 ounces at approximately U.S. \$350 per ounce.
- (d) The Company has guaranteed a bank loan in the amount of \$425,000 of a third party in consideration for the option to acquire shares in a resource company.

# FIVE-YEAR COMPARATIVE SUMMARY OF FINANCIAL HIGHLIGHTS

(\$'000 except where noted)

<b>FINANCIAL RESULTS</b>	<b>1981</b>	<b>1980</b>	<b>1979</b>	<b>1978</b>	<b>1977</b>
Gross Value of Bullion Production . . . . .	\$ 24,578	\$ 37,253	\$ 24,698	\$ 17,176	\$ 14,208
Average Gold Price Received (\$ Cdn. per ounce) . . . . .	\$ 549	\$ 738	\$ 350	\$ 226	\$ 162
Petroleum and Natural Gas Revenue					
Net of Royalties . . . . .	\$ 7,987	\$ 5,087	\$ 3,685	\$ 2,292	\$ 1,789
Operating and Administrative Expenses . . .	\$ 17,237	\$ 16,441	\$ 12,750	\$ 9,552	\$ 8,265
Depreciation, Depletion and Amortization . .	\$ 2,736	\$ 1,592	\$ 1,308	\$ 1,300	\$ 1,028
Income Taxes (net) . . . . .	\$ 580	\$ 9,650	\$ 5,725	\$ 2,837	\$ 2,290
Income (loss) from Continuing Operations .	\$ (10,325)	\$ 15,859	\$ 12,505	\$ 6,564	\$ 4,041
Loss from Discontinued Operations . . . . .	\$ (13,056)	\$ (4,629)	\$ (3,013)	\$ (2,507)	\$ (331)
Extraordinary Income (loss) . . . . .	\$ (20,509)			\$ 1,740	
Net Income (loss) . . . . .	\$ (43,890)	\$ 11,230	\$ 9,492	\$ 5,797	\$ 3,710
Earnings Per Share (\$)					
Continuing Operations . . . . .	\$ (2.83)	\$ 4.38	\$ 3.72	\$ 1.89	\$ 1.18
Before Extraordinary Item . . . . .	\$ (6.42)	\$ 3.10	\$ 2.82	\$ 1.17	\$ 1.08
Net Income (loss) . . . . .	\$ (12.06)	\$ 3.10	\$ 2.82	\$ 1.67	\$ 1.08
Dividends Paid . . . . .	\$ 1,987	\$ 3,924	\$ 2,093	\$ 1,754	\$ 1,373
Dividends Paid Per Share (\$)	\$ .50	\$ 1.00	\$ 0.60	\$ 0.50	\$ 0.40

## FINANCIAL POSITION (at year end)

Working Capital (Deficiency) . . . . .	\$ (16)	\$ (2,899)	\$ 532	\$ 9,158	\$ 6,072
Investments . . . . .	\$ 33,631	\$ 31,333	\$ 12,790	\$ 1,404	\$ 3,764
Net Assets of Discontinued Coal Operations		\$ 16,442	\$ 9,041	\$ 7,577	\$ 1,006
Fixed Assets (net) . . . . .	\$ 3,683	\$ 2,372	\$ 1,932	\$ 2,237	\$ 2,776
Petroleum and Natural Gas Interests . . . . .	\$ 42,665	\$ 34,297	\$ 18,972	\$ 12,544	\$ 6,510
Other Assets and Deferred Expenditures . .	\$ 13,756	\$ 12,456	\$ 2,413	\$ 2,054	\$ 1,759
Total Assets . . . . .	\$ 108,168	\$ 104,804	\$ 55,430	\$ 38,348	\$ 25,724
Long Term Liabilities . . . . .	\$ 83,440	\$ 39,450	\$ 15,239	\$ 10,391	\$ 2,620
Shareholders' Equity (Deficiency) . . . . .	\$ (6,074)	\$ 40,260	\$ 25,546	\$ 19,775	\$ 16,892
Shares Outstanding . . . . .	4,075,057	4,037,857	3,554,107	3,533,307	3,526,107
Shares Price High/Low . . . . .	\$43.50-16.25	\$51-15.75	\$19.75/12.75	\$17.50/11.25	\$ 15.50/8.75

## PRODUCTION HIGHLIGHTS

### Gold

(Camflo ore only)

Tons Milled . . . . .	413,131	461,250	471,701	470,778	471,798
Recovered Grade (oz./ton) . . . . .	0.097	0.109	0.150	0.162	0.185
Ounces of Gold Recovered . . . . .	40,236	50,478	70,639	76,102	87,433
Mine Operating Costs					
— Per Ton Milled . . . . .	\$ 18.21	\$ 17.42	\$ 14.47	\$ 13.54	\$ 12.51
— Per Ounce Recovered . . . . .	\$ 186.94	\$ 159.16	\$ 96.60	\$ 83.75	\$ 67.49
Ore Reserves at year end . . . . .	2,321,076	2,813,720	2,297,470	2,183,925	2,117,650
Recoverable Grade of Ore Reserves (oz./ton)	0.130	0.129	0.144	0.158	0.174

### Petroleum and Natural Gas (Gas including oil converted at net equivalent values)

Production — BCF per year . . . . .	3.9	2.8	2.5	1.9	1.6
Proven Reserves — BCF at year end . . . . .	112	96	67	48	34

## APPENDIX I

### Interim Report to Shareholders for the three months ended March 31, 1982

#### TO THE SHAREHOLDERS:

Enclosed are the unaudited Consolidated Statements of Operations and Changes in Financial Position for the three months ended March 31, 1982. Management is pleased to report that the Corporation rebounded from its 1981 loss, to show a profit in the first quarter of 1982. These positive results were achieved notwithstanding the following:

- a) an average gold price in 1982 of Cdn. \$433 per ounce versus Cdn. \$609 in 1981,
- b) \$1.4 million in increased debt servicing costs compared with the first quarter in 1981, and
- c) provision for write-down of \$627,000 to market in respect of the Corporation's investment portfolio due to the current depressed equity markets.

After the foregoing, consolidated net income amounted to \$949,000 or \$.26 per share compared with a loss of \$404,000 or \$.11 per share in the same period in 1981. The statement of operations for the current period does not reflect the operating results of the coal enterprises as the Corporation discontinued this business segment in 1981. The loss attributable to the coal enterprises in the comparative period of 1981 was \$2.3 million or \$0.63 per share.

Gold bullion revenue amounted to \$7.8 million from the production of 17,924 ounces of Camflo bullion including its 40% share of Malartic Hygrade bullion compared with \$6.2 million from the sale of 10,155 ounces of gold in the first quarter of 1981. Revenue per ounce averaged Cdn. \$433 compared with Cdn. \$609 in 1981.

Petroleum and natural gas revenue increased marginally to \$2.6 million in the current period compared with \$2.5 million in the first quarter of 1981. Increased production in the year was substantially offset by increased costs, specifically as a result of the federal petroleum and gas revenue tax.

The Corporation's debt burden, compounded by continuing high interest rates, continues to have an adverse effect on earnings. Interest expense in the first quarter of 1982 was \$3.6 million compared with \$2.2 million in the same period in 1981. The severity of the Corporation's debt servicing requirements can be illustrated by the fact that interest expense in the three month period equalled \$0.98 per share. One of the major objectives of the Corporation is to reduce its bank loans, which will have a significant affect on increasing earnings.

#### Gold

In the first quarter of 1982 the mill treated 89,063 tons of Camflo ore having a recovered grade of 0.168 ounces of gold per ton for a production of 14,940 ounces worth \$6.4 million. Including Camflo's 40% share of Malartic Hygrade, production for the quarter amounted to 17,924 ounces compared to 10,321 ounces in the first quarter of 1981. Operating cost per ounce in 1982 was \$119.52 versus \$207.68 in the first quarter of 1981 and \$191.26 for the whole year 1981.

The Pinson gold property in Nevada, which is 26.25% owned by United Siscoe, had an excellent first quarter: 101,134 tons of 0.225 were milled for a production of 19,694 ounces at an operating cost of U.S. \$115.41 per ounce. The entire initial U.S. \$15.75 million bank loan with interest was repaid in March, thirteen months after initial production and the first cash distribution to the owners of over U.S. \$1.7 million was made on April 12th. Bi-monthly payments will continue throughout the year.

In the Red Lake area and at the Pandora property near Malartic, low gold prices, high interest rates and results which were not as good as anticipated in the areas examined, have

resulted in placing the Buffalo, Pandora and Wilmar granodiorite zones on a care and maintenance basis pending an increase in the price of gold.

### **Oil and Gas**

During the first quarter, Camflo participated in drilling 27 wells of which 20 were successful for an overall success ratio of nearly 74%. Reserves and production continue to increase.

### **Coal**

Notwithstanding the writing off in 1981 of all losses with respect to the coal operations pending their orderly disposal, the mines maintained operations in 1982. The Crown City mine continued to show a profit, as it did in the latter half of 1981, and March saw the first monthly net operating profit earned by the Muskingum mine. The Corporation is continuing its efforts to dispose of its interest in La Luz Mines which it is hoped will be consummated prior to the end of 1982.

### **United Siscoe Mines, Inc.**

In addition to the Pinson gold mine which is discussed above, Siscoe has major interests in geothermal energy through its 100% ownership of Geothermal Kinetics, Inc., and relatively minor interests in the oil and gas industry.

When brought on stream, the cash flows expected from the Rorabaugh property and the CU I Venture in the Imperial Valley of California will be very significant. The complete development of these properties will require additional financing, through either individual or corporate investors, supported by the chartered banks.

With respect to Rorabaugh, the access road to permit the construction of the 55,000 kw geothermal electrical generating station will be completed in June, and construction on the generating station will commence in July.

The CU I Venture has successfully completed Milestone I commitments, and financing is in place to cover the Milestone II phase. It is expected that this second Milestone will be completed by the second quarter of 1983, enabling the full field development during Milestone III of this venture, mainly financed by a \$49.4 million Federal Development of Energy guaranteed loan.

A settlement was concluded in connection with one of the Corporation's land holdings, and an amount in excess of \$3.9 million will be received within the next few days. This will be used mainly to retire part of the Corporation's bank loans.

# CAMFLO MINES LIMITED

## UNAUDITED CONSOLIDATED STATEMENT OF OPERATIONS

**For the Three Months Ended March 31, 1982**

(Expressed in thousands of dollars, except per share data)

	1982	1981 (restated)
Revenue		
Bullion .....	\$ 7,754	\$ 6,184
Petroleum and natural gas . . .	2,595	2,474
	<u>10,349</u>	<u>8,658</u>
Operating and administrative expenses .....	4,802	3,993
Interest (including interest on long-term liabilities of \$3,486; 1980, \$1,900) .....	3,572	2,223
Depreciation, depletion and amortization .....	689	322
	<u>9,063</u>	<u>6,538</u>
	1,286	2,120
Gain on sale of investments . . .	74	132
Other income .....	508	1,015
Provision for write-down of marketable securities .....	<u>(627)</u>	<u>          </u>
Income before income taxes and undernoted items .....	1,241	3,267
Income taxes (including deferred tax of \$425; 1980, \$688) . . .	<u>425</u>	<u>938</u>
Income before undernoted items .....	816	2,329
Minority interest in loss (income) of subsidiary companies . . . .	18	(95)
Share of income (loss) of affiliated companies .....	<u>115</u>	<u>(314)</u>
Income (loss) from continuing operations .....	949	1,920
Loss from discontinued operations	<u>          </u>	<u>(2,324)</u>
NET INCOME (LOSS) .....	<u>\$ 949</u>	<u>\$ (404)</u>
EARNINGS PER SHARE		
From continuing operations . .	\$ .26	\$ .52
Net income (loss) .....	\$ .26	\$ (.11)

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

**For the Three Months Ended March 31, 1982**

(Expressed in thousands of dollars)

	1982	1981 (restated)
WORKING CAPITAL DERIVED FROM		
Operations .....	\$ 1,930	\$ 3,339
Increase in long-term liabilities .....	2,427	8,196
Issue of capital stock .....	15	571
Other assets .....	<u>89</u>	<u>          </u>
	<u>4,461</u>	<u>12,106</u>
WORKING CAPITAL APPLIED TO		
Additions to		
Investments in and advances to affiliates .....	2,181	41
Petroleum and natural gas interests .....	1,701	2,545
Deferred mineral exploration projects .....	753	1,548
Fixed assets .....	75	202
Discontinued coal operations .....	<u>          </u>	<u>3,843</u>
Other .....	<u>          </u>	<u>1,393</u>
	<u>4,710</u>	<u>9,572</u>
INCREASE (DECREASE) IN WORKING CAPITAL POSITION .....	(249)	2,534
WORKING CAPITAL DEFICIENCY AT BEGINNING OF PERIOD . . . .	<u>16</u>	<u>2,899</u>
WORKING CAPITAL DEFICIENCY AT END OF PERIOD .....	<u>\$ 265</u>	<u>\$ 365</u>





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# Camflo

CAMFLO MINES LIMITED

## INTERIM REPORT TO SHAREHOLDERS

For the Six Months ended June 30, 1981

## CAMFLO MINES LIMITED

Suite 3001, South Tower  
Box 45, Royal Bank Plaza  
Toronto, Ontario  
M5J 2J1

### To the Shareholders

Enclosed are the Consolidated Statements of Income and Changes in Financial Position for the six months ended June 30, 1981.

### FINANCIAL:

Consolidated net loss was \$7,803,000 or \$2.11 per share during the six months ended June 30, 1981 and included an extraordinary provision for loss on the disposal of the Crown City coal mine of \$5,027,000 or \$1.36 per share. The impact of the coal strike together with the extremely high interest rates was primarily responsible for the operating loss. Comparative results for the six months ended June 30, 1980 were a consolidated net income of \$5,707,000 or \$1.59 per share.

Gold revenue amounted to \$12,811,000 during the first six months of 1981, which represents an effective production of 21,902 ounces averaging \$587 Canadian per ounce for the account of Camflo compared with \$18,291,000 from 25,363 ounces averaging \$721 Canadian per ounce during the first half of 1980.

Revenue from the company's petroleum and natural gas interests continued to increase and amounted to \$3,475,000 during the first half of 1981, an increase of 35% over the 1980 revenue of \$2,580,000.

Revenue from the coal operations amounted to \$11,116,000 compared with \$19,456,000 during the same period in 1980, reflecting the impact of a 2½ month strike by the United Mine Workers (only 50% of the results of the coal operations were included in the 1980 figures).

### GOLD

In the six months ending June 30, 1981, the Camflo mill treated 231,057 tons with an average recovered grade of 0.106 ounces of gold per ton to produce 24,543 ounces of gold. Of this, 213,064 tons grading 0.095 for a production of 20,142 ounces were from the Camflo

property and 17,988 tons of 0.245 for a production of 4,401 ounces were from the Malartic Hygrade property. Camflo receives 40% of the net revenue from the Malartic ore. In the first half of 1980, 226,144 tons of ore from the Camflo property averaged 0.112 ounces of gold per ton and 25,363 ounces were produced.

All underground production was reduced in June due to a scheduled 10 day shutdown to rebuild the rotor of the main hoist motor. During this period, to keep the mill in operation, 8,000 tons of low grade iron formation from a surface stockpile was substituted for the normal ore. This factor together with rescheduling of mining sequences in order to provide safe access for the mining of recently discovered high grade ore on the Malartic-Hygrade property, contributed to the lower grade treated during the first six months. A significant improvement in grade is scheduled for the fourth quarter.

Exploration and development of the Malartic Hygrade property is being accelerated and initial stope mining will commence in the fall in good grade ore. The grade of ore mined on the Camflo property is also expected to improve later this year.

Queenston Gold Mine's Pandora property in Quebec, which has been optioned to Camflo, has now been dewatered to a depth of 610'. A loading pocket has been established below the 375' level and drifting towards the main ore zone has been initiated. Rehabilitation of the 250' level has started and an ore pass is being driven from the 375' loading pocket to the 250' level. The programme to date is on schedule and up to expectations.

Camflo has various interests in the Red Lake area of Northwestern Ontario. Its primary activity is through Wilanour Resources, in which Camflo will have a 56% interest, which has arranged bank financing totalling \$8,000,000 to provide funds for development through to production of its properties. The Wilanour mill rehabilitation is on schedule and a full scale mill test of a portion of the old tailings, 120,000 tons grading 0.067 ounces of gold per ton, will commence in August. Bench tests indicate that recoveries in excess of 50% can be anticipated and costs should be low if good weather prevails. Stripping of the overburden for the open pit on the optioned Buffalo property is 75% complete and the decline has been started. Production from the open pit should begin in early October when the new Wilanour crushing plant has been completed. Dewatering of the Wilmar winze continues and underground diamond drilling of the granodiorite from the 1,300' level is giving encouraging results. Wilanour has sold gold futures contracts for 20,000 ounces of gold for settlement at various dates over the next 18 months. This action was taken to ensure orderly repayment of its Bank obligation.

## **COAL**

The proposed disposition of the Crown City coal mine is currently in the final stages of negotiation. In anticipation of this disposition, a provision for loss on disposal of \$5,027,000 has been made as of June 30, 1981. This transaction is expected to be completed during the third quarter. Proceeds from the disposition will be applied to reduce the bank indebtedness associated with the remaining Muskingum coal operations.

Management is currently assessing its operations at the Muskingum Mine. Although operational improvements are anticipated, the merits of remaining in the coal business are under active review.

As a result of the two and a half month coal strike which occurred during the second half of 1981, only 277,000 tons of coal were produced and sold from both mines compared with 586,000 tons in the same period of 1980.

## **PETROLEUM AND NATURAL GAS**

During the first six months of 1981, Camflo participated in drilling 83 wells resulting in 18 oil wells, 41 gas wells and 24 dry holes for an average success rate of 71%. In Western Canada, 54 wells were drilled of which 41 were completed as potential producers. It is anticipated that all but two wells will be tied in and producing gas by year end. The remaining 29 wells were drilled in the United States and 18 of these were completed as potential oil producers. Camflo has been concentrating its U.S. oil and gas exploration through Neomar's increasing American activities and through the Signalta joint venture's participation in the Oklahoma Quad program. In addition, through its participation in the Montana Diamond Shamrock program, Camflo has a 10.45% interest in an exploratory oil well testing in excess of 500 barrels per day. The corporation anticipates that additional wells will be drilled on this property.

## **MINERAL EXPLORATION**

In Quebec and Northeastern Ontario, surface exploration is being carried out on 9 gold prospects. Drilling has commenced on one property and two additional properties will be drilled prior to year end.

In the Red Lake area, diamond drilling is underway on the Thrall property and the drilling of the adjoining My-Ritt property is expected to get underway this fall.

In Manitoba diamond drilling is underway on one property and drilling is planned on a second property either later this fall or during 1982.

In Newfoundland, drilling on 3 of the 7 target areas has been partly completed under the potash joint venture with Pronto and Noranda. Arrangements are presently underway to engage a larger drill to complete the holes.

In Spain, the Rosalejo underground programme was concluded during the latter part of June. At the present time, a feasibility study is being carried out on this lead, zinc, silver deposit.

## **UNITED SISCOE MINES INC.**

In July of this year, United Siscoe Mines Inc. increased its interest in Geothermal Kinetics Inc. from 84% to 100% through a share exchange and purchase transaction. As a result of the issue of shares by Siscoe to certain minority shareholders of G.K.I., Camflo's interest in Siscoe was diluted from 44.7% to 42.3%.

G.K.I. ceased drilling its Boggs Mountain property in late June at the 4500' depth as the geology and rock types anticipated at that depth were not encountered. Further assessment of the geological conditions encountered is being carried out prior to a decision on the possible drilling of an additional well.

At the Pinson gold property in Nevada, in which Siscoe has a 26.25% interest, 162,000 tons of ore were milled grading an average of 0.175 ounces per ton and an average recovery of 84.3%. To June 30, 17,848 ounces have been sold at an average price of US \$483. Production costs have averaged US \$24.20 per ton milled since start up. Mine operating profit during the period amounted to U.S. \$4,332,000 of which Siscoe's share was U.S. \$1,137,000. Total project bank loan interest payments for the six months amounted to U.S. \$1,640,000. As of the date of this report, the Pinson loan had been reduced from U.S. \$15,750,000 to U.S. \$9,560,000.

August 26, 1981

R. M. Smith  
President

# CAMFLO MINES LIMITED

## CONSOLIDATED STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 1981

(Expressed in thousands of dollars, except earnings per share)

	1981	1980
Revenue		
Bullion .....	\$12,811	\$18,291
Coal .....	11,116	9,728
Petroleum and natural gas .....	3,475	2,580
	<u>27,402</u>	<u>30,599</u>
Operating and administrative expenses other than items set out below .....	20,230	17,355
Interest (including interest on long-term liabilities of \$6,447; 1980, \$2,441) .....	7,345	2,718
Depreciation, depletion and amortization .....	2,465	1,736
	<u>30,040</u>	<u>21,809</u>
	(2,638)	8,790
Gain on sale of investments .....	1,159	1,903
Other income .....	1,054	637
Income (loss) before income taxes and undernoted items .....	(425)	11,330
Income taxes (including deferred tax of \$1,176; 1980, \$3,136) .....	1,608	5,416
Income (loss) before undernoted items .....	(2,033)	5,914
Minority interest in subsidiary companies .....	(358)	113
Share of loss of affiliated companies .....	(385)	(321)
Income (loss) before extraordinary item .....	(2,776)	5,706
Provision for loss on disposition of coal operation .....	(5,027)	
NET INCOME (LOSS) .....	<u>\$ (7,803)</u>	<u>\$ 5,706</u>
EARNINGS PER SHARE		
Income (loss) before extraordinary item .....	<u>\$ (.75)</u>	<u>\$1.59</u>
Net income (loss) .....	<u>\$ (2.11)</u>	<u>\$1.59</u>

# CAMFLO MINES LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30, 1981

(Expressed in thousands of dollars)

	1981	1980
WORKING CAPITAL DERIVED FROM		
Operations .....	\$ 556	\$ 8,985
Proceeds on sale of investments .....	1,888	2,375
Increase in long-term liabilities ..	22,621	11,801
Issue of capital stock .....	590	7,138
	<u>25,655</u>	<u>30,299</u>
WORKING CAPITAL APPLIED TO		
Additions to		
Investments in affiliates .....	113	17,963
Investment in other companies	2,743	3,523
Petroleum and natural gas interests .....	4,993	3,644
Deferred exploration and development .....	4,082	1,014
Fixed assets .....	3,140	1,249
Retirement of long-term liabilities	2,944	2,042
Dividends .....	1,392	1,955
Other .....	1,239	977
	<u>20,646</u>	<u>32,367</u>
INCREASE (DECREASE) IN WORKING CAPITAL POSITION .....	5,009	(2,068)
WORKING CAPITAL DEFICIENCY AT BEGINNING OF PERIOD .....	11,386	3,814
WORKING CAPITAL DEFICIENCY AT END OF PERIOD .....	<u>\$ 6,377</u>	<u>\$ 5,882</u>